

Auditor-General of South Africa

Umvoti Municipality - audit report 2016-17

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Umvoti Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Umvoti Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material underspending of the conditional grant

7. As disclosed in note 26 to the financial statements, the municipality materially underspent the small town rehabilitation grant by R4,17 million. This resulted in the municipality not achieving some of its planned service delivery targets for the year.

Material losses – electricity

8. As disclosed in note 39 to the financial statements, material electricity losses of R7,31 million (2015-16: R5,10 million) were incurred which represents 15,17% (2015-16:

17,99%) of total electricity purchased. Technical losses were due to distribution losses while non-technical losses were mainly due to illegal connections.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Umvoti Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included

in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Development priority 2: Basic service delivery and infrastructure	xx – xx
Development priority 3: Local economic development	xx – xx
Development priority 6: Cross cutting interventions	xx – xx

18. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority 2: Basic service delivery and infrastructure

Number of kilometres of rural gravel roads maintained: indicator not specific and well-defined

20. The target number of kilometres of rural gravel roads maintained as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance or did not specify which rural roads would be maintained and the nature of maintenance to be performed, as required by the FMPPI.

Number of public facilities maintained: indicator not specific and well-defined

21. The target number of public facilities maintained as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance or did not specify which public facilities were to be maintained and the nature of maintenance work to be performed, as required by the FMPPI.

Various indicators - indicators not reliable

22. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Reported achievement	Audited value
% of electricity faults addressed within a 3 hour turnaround time (municipal licensed area)	100%	0%
Number of m ² of patches and potholes repaired (Urban area)	6 119,65 m ²	1 360 m ²
Number of kilometres (km's) of rural gravel roads maintained	181,8 km's	41 km's

Development priority 3: Local economic development

Number of small, medium and micro enterprises (SMME's) and co-operatives supported: indicator not specific and well-defined

23. The target number of SMME's and co-operatives supported as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance or there was no clear definition of what constitutes support, as required by the FMPPI.

Number of jobs created through EPWP - indicator not reliable

24. The reported achievement for the target number of jobs created through the expanded public works programme was misstated as the evidence provided indicated 149 and not 183 as reported.

Number of jobs created through capital projects: indicator not reliable

25. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the above indicator. As a result, I was unable to obtain sufficient appropriate audit evidence to support the reported achievement. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement of 221 jobs created.
26. I did not raise any material findings on the usefulness and reliability of the reported performance information for the development priority: Cross cutting intervention.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure and local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, annual report

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
33. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
34. The oversight report adopted by the council on the 2015-16 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

35. Effective steps were not taken to prevent irregular expenditure amounting to R40,32 million as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
36. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R303 001, as disclosed in note 36 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by the late payment of invoices for bulk purchases.

Strategic planning and performance management

37. A mid-year performance assessment was not performed as required by section 72(1)(a)(ii) of the MFMA.
38. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

Human resource management

39. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.

Consequence management

40. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
41. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

42. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as there were inadequate monitoring controls to ensure that SCM processes were followed.
43. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
44. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
45. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
46. Some of the quotations were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
47. Some of the contracts were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
48. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and the Preferential Procurement Regulations.
49. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.

Other information

50. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword and accounting officer's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
51. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
52. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

Internal control deficiencies

54. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
55. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

56. Council and the accounting officer did not provide adequate oversight to ensure that financial statements were accurate, the annual performance report was useful and reliable and that all applicable legislation was complied with.

Financial and performance management

57. Management did not implement adequate controls to ensure compliance with key legislation.
58. Management did not implement adequate internal controls to ensure that the financial statements were accurate, complete and agreed to supporting schedules. There were inadequate monitoring processes to ensure measurability and reliability of planned and reported indicators and targets.

Pietermaritzburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officers 's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umvoti Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.